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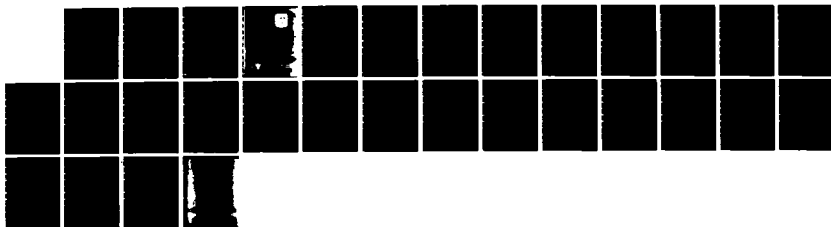
THE MILITARY RETIREMENT SYSTEM: IS CHANGE NEEDED?(U)
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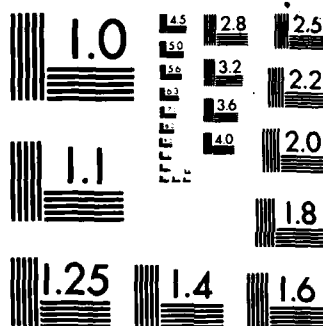
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to the system, and develops conclusions and recommendations regarding the appropriateness of those changes. Data was gathered using a literature search of retirement studies and reports issued over the past twelve years. It is concluded that the system is indeed costly and will become even more costly in the future. However, any decision to use cost as one of the sole criteria to judge the system could result in a poor bargain. The system has served the Nation well over the years by attracting high-caliber men and women to perform a necessary service which the majority of United States citizens want accomplished but which the majority prefer be done by someone else. Recognition is given that change is inevitable and that it is far better that the Department of Defense take the initiative to introduce change rather than allow the Congress to affect change piecemeal or willy-nilly as is their current inclination. Accordingly, the 20-year retirement provision and the cost of living adjustment (COLA) appear to be aspects of the system which are least defensible, most susceptible to scrutiny, and offer the greatest opportunity for change.

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THE MILITARY RETIREMENT SYSTEM: IS CHANGE NEEDED?

BY

LIEUTENANT COLONEL HERBIE R. TAYLOR, AG

18 APRIL 1984



US ARMY WAR COLLEGE, CARLISLE BARRACKS, PENNSYLVANIA

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USAWC MILITARY STUDIES PROGRAM PAPER

THE MILITARY RETIREMENT SYSTEM: IS CHANGE NEEDED?

INDIVIDUAL ESSAY

by

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ABSTRACT

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The Congress, media, and American public have placed considerable pressure recently on the Department of Defense to reduce the level of defense spending. Attention has been focused in particular on the military nondisability retirement system as one aspect of this spending which is excessive, inequitable and unfair. This essay reviews the current system and its objectives, analyzes criticisms of the system, evaluates proposed changes which have been recommended to the system, and develops conclusions and recommendations regarding the appropriateness of those changes. Data was gathered using a literature search of retirement studies and reports issued over the past twelve years. It is concluded that the system is indeed costly and will become even more costly in the future. However, any decision to use cost alone as the sole criteria to judge the system could result in a poor bargain. The system has served the Nation well over the years by attracting high-caliber men and women to perform a necessary service which the majority of United States citizens want accomplished but which the majority prefer be done by someone else. Recognition is given that change is inevitable and that it is far better that the Department of Defense take the initiative to introduce change rather than allow the Congress to affect change piecemeal or willy-nilly as is their current inclination. Accordingly, the 20-year retirement provision and the cost of living adjustment (COLA) appear to be aspects of the system which are least defensible, most susceptible to scrutiny, and offer the greatest opportunity for change.

Considerable pressure has been exerted in recent years on the Department of Defense (DOD) by the Congress, the media, and the American public to reduce the level of defense spending. Major attention has been focused in particular by these critics on the military nondisability retirement system as one aspect of this spending which is overly generous, inequitable and unfair. Over the past twelve years, there have been numerous proposals put forth by Presidential and Congressional commissions, DOD reviews, and independent research studies to change the nondisability retirement system. Significant among these efforts have been those of the 1972 DOD Retirement Study Group, the 1976 Defense Manpower Commission Report, the 1977 DOD Report of the Third Quadrennial Review of Military Compensation, the 1978 Report of the President's Commission on Military Compensation, and the soon-to-be-released Fifth Quadrennial Review of Military Compensation. These studies center primarily on criticisms involving the high cost of military retirement, retirement of relatively young people after only twenty years of service, lack of equity in providing benefits to those who leave military service before completing twenty years of service, and the generosity of the military system when compared against private and public sector retirement systems.

Given, then, that there is significant interest in changing the military nondisability retirement system, this essay will address the current system and its objectives; analyze the proposed changes offered by the studies previously mentioned; and develop conclusions and recommendations regarding the appropriateness of those changes. Particular attention will be given to analyzing criticisms of the existing system in light of the proposed changes and to recommending only those changes which are supportable, equitable, understandable; and, most importantly, which contribute to the maintenance of a strong national defense.

Overview

The laws, regulations and procedures which govern the military nondisability retirement system are lengthy in their detail and complexity; therefore, no attempt will be made to discuss all aspects of the system. However, a brief overview of the existing system to include its more important provisions is necessary to understanding the nuances of the critics' concern about the system.

The current system was enacted into law by Titles 5, 10 and 37, United States Code and subsequently translated into regulatory guidance by the individual service components through applicable Army, Navy, Air Force and Marine Corps manuals and regulations. It is a non-contributory, non-funded, and non-vested system that uses years of service rather than chronological age as the determining factor in establishing eligibility for voluntary retirement. Eligibility for retirement at the individual's request occurs for an officer or warrant officer of the Regular Army when they have completed at least forty years of service. An officer of the Regular Army who has completed thirty years of service may retire at the discretion of the President. A Regular or Reserve officer who has completed twenty years of active Federal service, at least ten years of which was commissioned, and a warrant officer who has completed at least twenty years of service, each may retire at the discretion of the Secretary of the Army.¹ Correspondingly, enlisted members are eligible to retire upon completion of at least thirty years of active Federal service, and they may request to be retired, subject to the approval of the Secretary of the Army, upon completion of twenty years of active Federal service.² Further, the President's Commission on Military Compensation recognized that:

While retirement at 20 years is by permission, not by statutory right, it has in fact come to be considered

a right and is treated as such by the services. Normally only members who have been recently promoted, or who have committed themselves to additional active service in exchange for recent training or education, are temporarily denied permission to retire.³

Computation of retired pay for individuals who have completed at least twenty years of active Federal service is ordinarily computed by multiplying the final basic pay rate at time of retirement by 2.5 percent for each year of qualifying service. Retirement with twenty years of service thus yields retirement pay equal to 50.0 percent of terminal basic pay. After twenty years, the amount is increased by 2.5 percent for each year of qualifying service to a maximum of 75.0 percent of basic pay at thirty years of service. Table 1 depicts the percent equivalents for retired pay based on each year of qualifying service.

TABLE 1

Years of Service/Percent Equivalents

<u>Years of Service</u>	<u>Percent</u>	<u>Years of Service</u>	<u>Percent</u>
20	50.0	26	65.0
21	52.5	27	67.5
22	55.0	28	70.0
23	57.5	29	72.5
24	60.0	30 or over	75.0
25	62.5		

Source: Retired Military Almanac (Washington, DC: Uniform Services Almanac, Inc., 1980), p. 13.

There are three points which are critical to any analysis of the military retirement system. First, military retirees do not earn 50.0 percent of final pay at twenty years of service and 75.0 percent at thirty years of service since the multiplier applies to basic pay only. Basic pay is less than final pay or real military compensation (RMC), which corresponds to the salaries

of civilians and forms the basis for computing public sector retirement annuities. The American Enterprise Institute in an evaluation of retirement proposals before the 96th Congress made the following observations regarding RMC:

RMC refers to the total compensation of active duty members of the military services. It consists of basic pay, the basic allowance for quarters (BAQ) that is paid to members who are not in government-furnished housing, the basic allowance for subsistence (BAS) that is paid to enlisted members who do not eat in government dining facilities and to all officers, and the tax advantage derived from the fact that BAQ and BAS are tax exempt. Retirement pay is based on basic pay rather than total compensation. Thus proposals to...reallocate general pay increases among these elements within limits are controversial, for if a larger proportion of the pay increase is added to items other than basic pay, retirement benefits will not be as high as might otherwise be the case.⁴

Second, the system pays nothing to individuals who leave the service before completing twenty years of service. Officers who are non-voluntarily separated without achieving eligibility for retirement do receive severance pay; however, this pay is not associated with the retirement system. This lack of "vesting" is considered by some critics as unfair since more than 90 percent of all enlisted entrants into the military and more than 70 percent of all officer entrants get no benefits at all.⁵ Therefore, the system appears to be inequitable when compared to other retirement systems. The American Enterprise Institute points out:

The typical retirement plan in the private sector calls for vesting of at least a percentage of pension benefits in an employee after ten years; that is, the employee may not be denied benefits at the appropriate retirement age if the minimum service required for vesting is performed. Employees of state and local governments typically acquire vested rights in their retirement plan after ten years of service. Rights are vested under the federal civil service plan after five years of service.⁶

Lastly, the Congress has begun in recent years to make piecemeal changes to the military retirement system that have adversely affected the value of

military retirement pay. These changes have been purely cost-cutting measures resulting from floor amendments during the budget process without regard to what is fair to the military member or the affect the changes will have on future force structure. Significant among these changes have been Public Law 96-342 (September 8, 1980) and Public Law 97-253 (September 8, 1982).

Public Law 96-342 replaced use of terminal basic pay with an average of the highest three years of basic pay for determining retired pay entitlements. Congress "grandfathered" this legislation to apply only to those first entering service on or after September 8, 1980. Captain Thomas M. Hale, United States Navy, who heads the Compensation Policy Branch on the staff of the Chief of Naval Operations, Washington, DC, asserts in the April 1983 edition of the US Naval Institute Proceedings:

The imposition of high-three averaging to members who joined the military after 8 September 1980 will significantly reduce benefits to military nondisability retirees beginning with 20-year retirees in the year 2000...Like most other recent changes to military retirement, Congress enacted the high-three law without any hearings or comment from the Services on how the change would impact the force. It was a poor attempt to phase in a retirement system similar to high-three averaging of the civil service system. The civil service system is considerably more advantageous since it averages total pay, including overtime. The military member will average only the last three years of his basic pay, which is typically 25 percent less than his economic-equivalent civilian counterpart receives in pay.⁷

While Public Law 96-342 seriously degrades the value of future retirement pay for those now entering the military service, the potential effects of Public Law 97-253 may be even greater. Public Law 97-253 limited cost of living adjustments (COLA) to one-half of the Consumer Price Index (CPI) for all retirees under the age of 62 for the years 1983, 1984, 1985, and changed the annual increase from twelve months to thirteen for the same period. If, which is highly likely, the three-year provision of the law were to be extended, the total loss to those retirees under age 62 would be extremely severe.

Objectives

The objectives of the military nondisability retirement system should provide the framework upon which the whole system is structured. Accordingly, objectives for the system should of necessity express the uniqueness of the military profession. The Army Military Compensation Task Force aptly described this uniqueness in their 1976 study:

The military retirement system is unique because the military member's exposure to physical death is greater than the civilian member's exposure....The system, moreover, is unique because there is an additional risk to life-sustainment that is borne by the military member; that is, the risk of "economic death." If a military member has exposed himself to enemy fire for 20 or so years...the member is, in whole or part, economically dead if and when he attempts to enter the job market under the relatively disadvantageous conditions of (1) a relatively advanced age, say 40 or over and (2) typically little or no skill in the civilian job fields.⁸

Our current system has evolved over the years primarily in response to force management considerations in order to remove members deemed unfit for further service or to reduce strength after wartime buildup. The American Enterprise Institute succinctly comes to grips with the divergence of opinion about what the controlling objectives of the system should be by stating:

Many people, including Admiral Hyman Rickover, believe that the principal purpose of the program should be the care of those who are no longer employable. Others, including high officials of the Department of Defense, contend that the system is not an old-age pension program but is designed to complement personnel management requirements of the military force and help maintain a strong and ready force.⁹

It is indeed difficult to find a published consensus on what the objectives of the military retirement system currently are, or, for that matter, what they should be in the future. However, the Government Accounting Office (GAO) as the representative of the Legislative Branch and the Third Quadrennial Review of Military Compensation representing the Department of Defense or Executive Branch appear to be in agreement regarding key elements for the management of

a military retirement system. The GAO in a March 13, 1978 report to the Congress of the United States entitled The 20-Year Military Retirement System Needs Reform stated that the three broad objectives of the present military retirement system are to:

- assist in attracting and retaining the kinds and numbers of qualified members required,

- provide a socially acceptable method of removing some members who must be separated to insure maintenance of a young and vigorous force, and

- provide, after many years of faithful service, some degree of financial security that is understood, assured, and protected against the inroads of future inflation.¹⁰

The Third Quadrennial Review of Military Compensation completed in August 1976 by DOD states that the purpose of nondisability retired pay is, "to help maintain a competitive military employment position; to keep promotion opportunities open to young and able members; and provide some measure of economic security to members who retire after making a career of military service."¹¹

In view of the preceding, it is this author's contention that the objectives of the military retirement system are and should be to encourage high-caliber men and women to join the military service and to continue to serve after their initial obligation, to compensate them adequately for their service through promotions and advancements, and to provide adequately for their post-service life. Additionally, the system must be fair to both the service member and the taxpayer; support the management objectives of the services to provide a young and vigorous force; and, most importantly, recognize that military service is a highly dangerous, restricted and disciplined profession that provides little training or opportunity for a second career upon retirement.

Proposed Changes

The nondisability retirement system has remained essentially unchanged in form and substance until recently when the Congress began to take piecemeal cost-cutting measures. However, the cost of military retirement has risen substantially, primarily because the basic active duty military pay on which the calculation of retirement benefits is based increased significantly during the seventies. Military personnel retirement costs increased from \$800 million in 1961 to more than \$6.1 billion in 1975 and are expected to reach nearly \$15 billion by the year 2000. In fiscal year 1975, \$48 billion or 55 percent of the defense budget, was absorbed by personnel costs, of which \$6.1 billion or 13 percent represented retirement costs versus \$800 million or four percent in 1961.¹² Assuming annual price and wage growth of only five or six percent, retirement costs could very well quadruple by the end of the century. Table 2 contains a breakdown of Defense Department personnel costs from 1961 to 1975, which vividly demonstrates the rising cost of military retirement in comparison with total personnel costs.

TABLE 2

Outlays for the Department of Defense
by Category, 1961-1975
(In billions of dollars)

<u>Category</u>	<u>1961</u>	<u>1964</u>	<u>1968</u>	<u>1971</u>	<u>1973</u>	<u>1975</u>
Basic Pay	7.1	8.5	12.8	16.2	17.6	19.0
Allowances	4.2	5.0	7.5	7.0	6.3	7.5
Retired	.8	1.2	2.1	3.4	4.4	6.1
Civil Service	6.4	7.3	10.3	12.2	13.0	14.9
Total Pay	18.5	22.0	32.7	38.8	41.3	47.5
Percentage	(4.3)	(5.5)	(6.4)	(8.8)	(10.7)	(12.8)

Source: Lawrence J. Korb, The Joint Chiefs of Staff: The First Twenty-Five Years (Bloomington & London: Indiana University Press), p. 182.

In response to criticisms of the current military retirement system to include its high costs, numerous changes have been recommended in a series of studies dealing with retirement. The following commission and committee studies completed during the past twelve years have devoted particular attention to military retirement:

- . 1972 - Report of the DOD Retirement Study Group
- . 1976 - Study of the Defense Manpower Commission (DMC)
- . 1977 - Report of the DOD Third Quadrennial Review of Military Compensation (QRMC)
- . 1978 - Report of the President's Commission on Military Compensation (PCMC)
- . 1983 - Ongoing Study by members of the DOD Fifth Quadrennial Review of Military Compensation (QRMC)

Additional reports have been issued by the GAO and the Congressional Budget Office (CBO) as well as by private and public agencies. All these reports, studies and commissions have focused on cutting costs while accommodating the different objectives of the current retirement system. Table 3 compares and summarizes the substance of the key recommendations of the four major retirement studies conducted during the past decade.

TABLE 3

Summary of Key Retirement Recommendations
(1972-1978)

<u>Retirement Provision</u>	<u>DOD Ret Study Gp (1972)</u>	<u>DMC (1976)</u>	<u>3rd QRMC (1977)</u>	<u>PCMC (1978)</u>
Years to qualify for immediate annuity	20 (Reduced annuity)	30 for most (20-29 for some)	20 (Reduced annuity)	age and YOS
Social Security Integration	Yes	No	No	Yes
Income base	High 1 basic pay	High 3 basic pay	High 1 basic pay	High 3 basic pay
Contributory	No	No	No	No
Vesting	Yes	Yes	Yes	Yes
Grandfathered	Yes	Yes	Yes	Yes

In addition to the four published studies outlined above, both the national and military press have reported recently on possible system changes to be recommended by the Fifth Quadrennial Review of Military Compensation (QRMC). These reports indicate that the Fifth QRMC has completed its initial work and has forwarded four options to the military services for comment prior to preparation of a decision briefing for the Secretary of Defense. The option reported as preferred by the QRMC staff and expected to be recommended to Defense Secretary Caspar Weinberger is summarized in Table 4:

TABLE 4

Fifth QRMC Proposal For Changing Military Retirement

<u>Annuity Formula</u>	<u>COLA</u>	<u>Lump Sum Retirement Fund</u>	<u>Grandfathering</u>
30-year retirees would draw 75% of basic pay but benefits would decline by 3 to 4 percentage points for each year of service less than 30.	COLA equal to 75% of CPI until retiree reaches age 62. Then COLA raised to 100% of CPI.	Early retirement withdrawal equal to 200% of annual basic pay for officers and 300% of basic pay for enlisted, for those who retire after at least 20 years of service.	Members with 12+ years service remain under current system, but would face COLA reduction. Members with less than 12 years service would have option of remaining under current system or switching to new plan.

Source: Tom Philpott, "Military Leaders to Say 'No' to QRMC Options," Army Times (Washington), 23 January 1984, p. 10.

The four major studies depicted in Table 3 all agree on the need for change in the military retirement system but they do not agree on the amount or degree of change. In particular, there is no consensus regarding the years of service required to qualify for an immediate annuity, the social security offset, or the income base to be used for calculating retired pay. There is agreement that the military member should not have to contribute to his retirement system,

that there should be some manner of "vesting" for those who voluntarily leave the service prior to attaining retirement eligibility, and that any change to the system should be "grandfathered," i.e., the changes would neither affect members already retired nor would they decrease benefits for those who are eligible to retire.

The key recommendations regarding specific provisions of the retirement system made in the studies require analysis if any meaningful decisions or conclusions are to be reached with respect to their appropriateness. Accordingly, the pros and cons of the various provisions are evaluated and analyzed in subsequent paragraphs.

Contributory System

Although all four studies recommend that the system remain noncontributory; there are those, particularly in the Congress, who support a contributory system. The majority of private pension plans are noncontributory; most state and local government plans require employee contributions; and all federal civilian retirement systems are contributory. The principal argument in favor of a contributory system is, of course, to cut costs. However, any reduction in net pay caused by contributing to a retirement fund could of necessity require a corresponding increase in basic pay. This increase in basic pay would offset any reduction made in retirement costs and could serve to increase total costs in the long term. Further, any attempt by DOD or Congress to mandate a contributory system without an offsetting increase in basic pay could seriously limit the ability of the services to recruit and retain the quality and quantity of personnel needed and, most assuredly, would be considered as patently unfair by those now serving.

Vesting

The majority of the enlisted personnel and officers who enter military service do not receive retirement benefits since, for whatever reason, they fail to serve a total of twenty years of qualifying service. This lack of "vesting" is considered by many to be unfair to the majority of military members who served their country honorably and faithfully but who are separated from the service during periods of reduction in force or who become disenchanted with service life. The principal objection to "vesting" is one of cost since a significant number of additional military members would be eligible for benefits. Captain Thomas Hale best states the arguments against vesting thusly:

A stable and reliable retirement system provides a valuable adjunct to the rest of the compensation system. Because it is not vested by the 10th year like all other pension plans, it is a relatively inexpensive means of providing for an experienced career force....¹³

All the major studies reviewed recommend "vesting" after ten years of service; however, the high cost resulting therefrom should serve as the determining factor in any decision to vest.

Grandfathering

The key issues regarding "grandfathering" are again those of fairness and cost. Grandfathering is essential to protect the rights of those now in the service to benefits under the current retirement system. Career service members have a moral claim against the government to benefits under the existing system. Most, if not all, made the decision to continue their military service based on the implied promise that they could expect to earn a retirement of fifty percent of base pay upon completion of twenty years of active service. This commitment is best articulated by the following quote from the report of the President's Commission on Military Compensation, "The current retirement system has been a major influence for many to continue on active duty. These people have

been attracted to stay on active duty as a result of implied promises of 20-year retirement. As a responsible employer, the Government should honor those promises."¹⁴

The case against grandfathering is made by critics who argue that immediate savings cannot be realized if those on active duty are allowed to continue under the present system. Therefore, decision makers must weigh not only what is fair against what is cost effective but what the effect would be on careerists if grandfathering were not implemented.

Years of Service to Qualify for Annuity

The 1972 DOD Retirement Study Group and the Third Quadrennial Review of Military Compensation recommended that members retiring with less than thirty years of service receive a reduced annuity which would be increased to the full amount when the member would have attained thirty years of service. Specifically, they recommended that for retirements with less than thirty years of service, the multiplier be reduced 15 percentage points and that the reduction be lifted at the point where the member would have attained thirty years of service. Example: For those retirements at twenty years of service, the current 50 percent multiplier would be reduced to 35 percent and then increased to 50 percent ten years after retirement.

The Defense Manpower Commission based retirement eligibility on time served in combat or noncombat jobs with 1.5 credits given for each year in a combat job and 1 point given for a noncombat job. Conversely, the President's Commission on Military Compensation geared retirement eligibility to age and years of service.

Reducing annuities for members who retire immediately or shortly after completing twenty years of qualifying service address two of the major criticisms of the current retirement system. The first being the need to cut costs

and the second to eliminate "early" retirements. Although all the major studies recommend that annuities should be reduced for people who retire early, there is little agreement on just how much the annuities should be cut.

Critics who question the fairness of retirement at twenty years contend that, due to the relatively young age at which military retirees leave the service, the majority are working within a short period of time after their retirement. Table 5 appears to confirm the critics' suspicion.

TABLE 5

Retirees' Immediate Postretirement Activities

<u>Years of Service at Retirement</u>	<u>Not Working and Not Looking</u>	<u>Going to School Full Time</u>	<u>Working or Looking for Work</u>	<u>Total</u>
<u>Officers</u>				
20-24	5.4%	11.3%	83.3%	100%
25-29	9.4	13.5	77.1	100
30-35	20.5	6.2	73.3	100
<u>Enlisted Persons</u>				
20-24	4.8%	5.8%	89.4%	100%
25-29	9.9	7.1	83.0	100
30-35	10.0	4.0	86.0	100

Source: President's Commission on Military Compensation, Report of the President's Commission on Military Compensation, p. 36.

Supporters of the twenty-year retirement argue, on the other hand, that the drawing of an immediate annuity provides a just reward for those who experience the rigors of a military career. Combat duty, frequent and involuntary moves, family separations, and low pay in comparison with civilian counterparts are just a few of the disadvantages the military member faces. Further, only a relatively small number of military members choose to remain in the service until reaching retirement eligibility. Accordingly, defenders claim they should be appropriately rewarded.

Social Security Offset

Military members have been making social security contributions since 1957 and retired members of eligible age currently receive both social security benefits and their military retired pay. Two of the four major studies recommend that, when military retirees begin drawing social security, their military retirement pay should be decreased, or offset by no more than one-half of the amount of the social security attributable to their military service.

Those who support the offset do so based on the rationale that the military retiree is receiving retirement pay; therefore, they should, at most, be given social security based only on their half of the contribution. Critics argue, justifiably so, that service personnel contribute to social security the same as do other workers and should not be penalized by having their social security benefits cut solely because of their military annuity.

The Defense Manpower Commission in their April 1976 report to the President and the Congress made the following points with regard to the social security offset proposal:

Analysis...has demonstrated that the structure of the Social Security benefit system does not permit an unambiguous attribution of benefits to any one employer when the individual has had covered employment with two or more employers. As a result, the proposed Social Security offset would deprive the retiree of income to which he would have been entitled had he never been covered by Social Security while in the military. He has paid substantial Social Security taxes for an income to which he is legally entitled but will never receive.¹⁵

Because of this and other problems, the commission recommended that military retirement pay not be offset by any part of social security attributable to military service.

Changing the Income Base Used in Calculating the Annuity

The current retirement system calculates annuities as a percentage of a service member's basic pay on the day of his retirement. The CBO makes the

point that, "this provision gives an advantage to those who can time their retirement to begin soon after an overall pay raise, a seniority increase, or a promotion."¹⁶ The point is that this situation is inequitable because some people are unable to dictate their retirement date.

Two of the four major retirement studies recommended basing annuities on pay in the year during which a person's pay was highest ("high 1"); and the other two studies recommended basing annuities on the three years of highest pay ("high 3"). The advantage of the high-3 rule range from encouraging members to serve a reasonable time after a seniority increase to bringing the military in line with the federal civil service retirement system and the typical public and private sector plans. It should be noted that with the implementation of Public Law 96-342 and high-3 averaging, further discussion of this provision becomes a moot point for those people entering the military after 8 September 1980.

Fifth QRMC

Two of the four changes expected to be recommended by the Fifth QRMC to the Secretary of Defense for presentation to Congress and ultimate adoption are new, controversial and significant in the effect they would have on retirees. The holding down of COLAs to 75.0 percent of the CPI is the most controversial and significant. It would in effect, extend the provisions of Public Law 97-235 indefinitely, although at a lesser rate, and would result in an immediate as well as a long-term reduction of retirement costs. Equally significant is the corresponding devaluation of a member's retired pay. It may be assumed based on recent media accounts that action will be taken by Congress to make some permanent cuts in COLA for federal retirees in order to reduce the federal deficit. Therefore, in view of these accounts and the previous adoption of Public Law 97-235, it appears the QRMC proposal is an attempt to delay any future arbitrary decision by Congress regarding the COLA issue while negotiating for the best deal

possible. The acceptance of this proposal by Congress; however, must take into account the effect it will have on the career force especially if the country were to return to a period of long-term high inflation.

The recommendation to provide an early withdrawal fund equal to two times annual basic pay for officers and three times annual basic pay for enlisted members who retire after completing 20 years of service is utterly baffling. It in no way satisfies those who are seeking to reduce retirement costs and Congress would never be amenable to this suggestion. Perhaps it is the intent of the QRMC to offer a "carrot" to appease those who would have their retirement benefits reduced by the proposed QRMC changes to the annuity formula and COLA.

Conclusions and Recommendations

The general observations, conclusions and recommendations regarding the military nondisability retirement system contained in the following paragraphs are based on research of the current system and an analysis of the most recent studies which have recommended changes to the system. It is recognized that this essay is subjective in both nature and scope; however, every effort has been made to eliminate personal bias.

The military retirement system is a complex and emotional topic and there is no limit to individual or corporate views about what is good or what is bad about the system. While all of the major retirement studies and the DOD have recommended some change in the system over the years, there is less than general agreement about how much change. It is concluded then that there is overall agreement that change is necessary but the degree of change remains to be determined.

The primary criticism of the current system is its cost. The system is indeed costly and will become even more costly in the future. However, any

decision to change the system in order to reduce costs must first consider what kind of system is necessary to recruit and retain the kinds of men and women that will be needed to preserve our country in an increasingly hostile world. To use cost alone as the sole criteria to judge the system could result in a poor bargain.

The current system has served the military services and the country well over the years. This is evident by the fact that the basic system has changed relatively little since World War II. Representative Marjorie Holt (R-Maryland), a senior member of the House Armed Services Committee, in a recent meeting with Army Times reporters, succinctly stated the case for the current system. After a series of hearings on military retirement by the Military Personnel and Compensation Subcommittee, Representative Holt, who is a member of the Subcommittee, said, "What I see coming out of the hearings that we've had is that this is the best system we could devise. Anything that anybody else suggests is going to be worse."¹⁷

The current political climate, Representative Holt's view notwithstanding, is ripe for insisting upon change in the system. Accordingly, it is far better for the services and the Department of Defense to take the initiative in addressing the entire retired pay issue rather than to allow the Congress to affect change piecemeal or willy-nilly. Therefore, the recommendations which follow are offered for consideration by policymakers.

A contributory system is not appropriate. The base argument for a contributory system is that it will cut costs; however, this argument cannot be supported. Requiring military members to contribute to their retirement without an offsetting increase in their basic pay would result in a net loss in take-home pay and could cause the services difficulty in recruiting new people and retaining

those currently serving. Therefore, the alternative would be to increase basic pay, thus, driving up costs which would result in a Catch-22 situation.

It is recommended that vesting not be a component of a new retirement system for those who voluntarily leave the service prior to attaining retirement eligibility. Those who leave voluntarily without serving a full career do so of their own accord and have no legitimate claim to benefits. More importantly, vesting would be extremely costly and would only serve to exacerbate the situation. Those who are involuntarily separated under honorable conditions, both officer and enlisted, should receive some type of severance pay to compensate them for their services.

The twenty-year retirement provision requires revision. The current procedure to allow retirement after only twenty years of service with an immediate unreduced annuity is simply too expensive and cannot stand up under the continued scrutiny of Congress and the American public. The trend is for employees in the civil sector to work longer before retiring and common sense dictates that the average person in the military is only beginning to reach their potential at the 38 to 45 year mark. It is recognized that any change to the twenty-year retirement will cause the services to have to adjust present personnel management policies. However, the impetus for this change should come from the services rather than the Congress in order to ensure that the most efficient and effective system in support of readiness goals is devised. It is outside this writer's expertise to recommend specific changes to the twenty-year rule; however, it appears the most appropriate change would be a reduced annuity for those who retire between twenty and thirty years of service as recommended in the reports of the 1972 DOD Retirement Study Group and the Third QRMC.

There should be no attempt by DOD or Congress to pursue imposing a social security offset on the pension of service personnel. The Defense Manpower

Commission adequately addressed the insurmountable problems associated with an offset and the unfair situation which would result therefrom. Accordingly, this issue should be declared dead and buried.

The question regarding what income base should be used in calculating a retiree's annuity requires no further development. The action by Congress in enacting Public Law 96-342, resulting in high-three year averaging for members who join the military after September 8, 1980, makes this an issue only for abstract or purely academic debate.

The handwriting is on the wall regarding COLA. Congress has given the DOD sufficient warning that COLA is a prime candidate for achieving cost reductions and that if DOD does not come forth with a proposal, then Congress may act independently in this area. Recently, the Army Times reported that Representative Les Aspin (D-Wisconsin) in a letter to Assistant Secretary of Defense for Manpower Lawrence Korb wrote that, "from where I sit, I believe the 'Erlenborn Proposal' could very well be adopted without the necessary consideration being given to the underlying impacts of such a change by the authorizing committees and by the executive branch."¹⁸ The "Erlenborn Proposal," so named for Representative John Erlenborn (R-Illinois) would provide full inflation protection to federal retirees on the first \$10,000 of federal retirement benefits. Benefits in excess of \$10,000 would be increased every year by only 60.0 percent of the inflation rate. The Army Times went on to report that Representative Aspin warned Secretary Korb, as he has on several occasions, that if DOD does not recommend a change to the military retirement system which "will reduce its costs and increase its effectiveness as an element of compensation, the Congress may very well seize the initiative."¹⁹ In view of the apparent propensity by Congress to cut COLA, it behoves the DOD to move quickly to offer their own proposal. Accordingly, the Fifth QRMC suggestion to provide COLA at 75.0

percent of the CPI until age 62 provides an excellent starting point for further DOD evaluation regarding the effect the change would have on the career force. Again, it is outside the expertise and resources of this writer to recommend a specific reduction in COLA; however, it is painfully obvious that DOD must soon develop an equitable solution to this problem that meets the defense needs of the nation and is both fair to retiree and taxpayer alike.

QRM's recommendation to provide an early withdrawal fund for officers and NCOs is totally unrealistic in today's cost conscious environment and DOD would be well advised to disregard this proposal less it jeopardize other legitimate proposals.

Lastly, any change to the military nondisability retirement system other than COLA must contain a grandfather clause which protects not only those retired or eligible to retire but also those who have made a positive career commitment; i.e., second enlistment for enlisted personnel and Regular status for officers. A decision by the Government not to do so would be an unacceptable breach of faith as well as of an implied commitment and could result in irreparable damage to the entire DOD personnel structure.

In conclusion, the military disability retirement system is often discussed but rarely understood. If you were to ask a Congressman, newspaper reporter, or the average man on the street to describe the system, you would probably receive three very different answers, and none would be totally correct. Most, if not all, would attack the system and all would be wrong, wrong because they are misinformed. The system has served this country well over the years. It has attracted high-caliber men and women to perform a necessary service which the majority want accomplished but which the majority would prefer be done by someone else. Perhaps, then, if the system is not broken, we should not try to fix it! This writer recognizes; however, that ultimate change in the

retirement system is inevitable. Therefore, the DOD must take the lead in this regard rather than relegating by inaction the impetus for change to those with no real knowledge or concern of the impact on the service and its people. Not to do so would be both irresponsible and disastrous. Hopefully, this paper will be of some use to DOD policymakers as they endeavor to come to grips with the hard decisions that must be made soon.

ENDNOTES

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3. President's Commission on Military Compensation, Report of the President's Commission on Military Compensation, p. 45.
4. American Enterprise Institute, Military Retirement: The Administrative Plan and Related Proposals, pp. 69-72.
5. US Congressional Budget Office, The Military Retirement System: Options for Change, p. 15.
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7. Thomas M. Hale, "Military Retirement Pay: A Time of Crisis," US Naval Institute Proceedings, April 1983, p. 110.
8. The Army Military Compensation Task Force, Military Compensation: Past, Present and Future, Vol. I (Executive Summary), Office of the Deputy Chief of Staff for Personnel, 1976, pp. 103-104.
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12. Lawrence J. Korb, The Joint Chiefs of Staff: The First Twenty-Five Years, pp. 182-183.
13. Hale, p. 111.
14. President's Commission on Military Compensation, p. 73.
15. Defense Manpower Commission, Defense Manpower: The Keystone of National Security, Report to the President and the Congress, p. 351.
16. Congressional Budget Office, p. 29.
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18. Martha L. Craver, "COLA Cut Very Likely, Aspin Warns Pentagon," Army Times (Washington), 27 February 1984, p. 1.
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